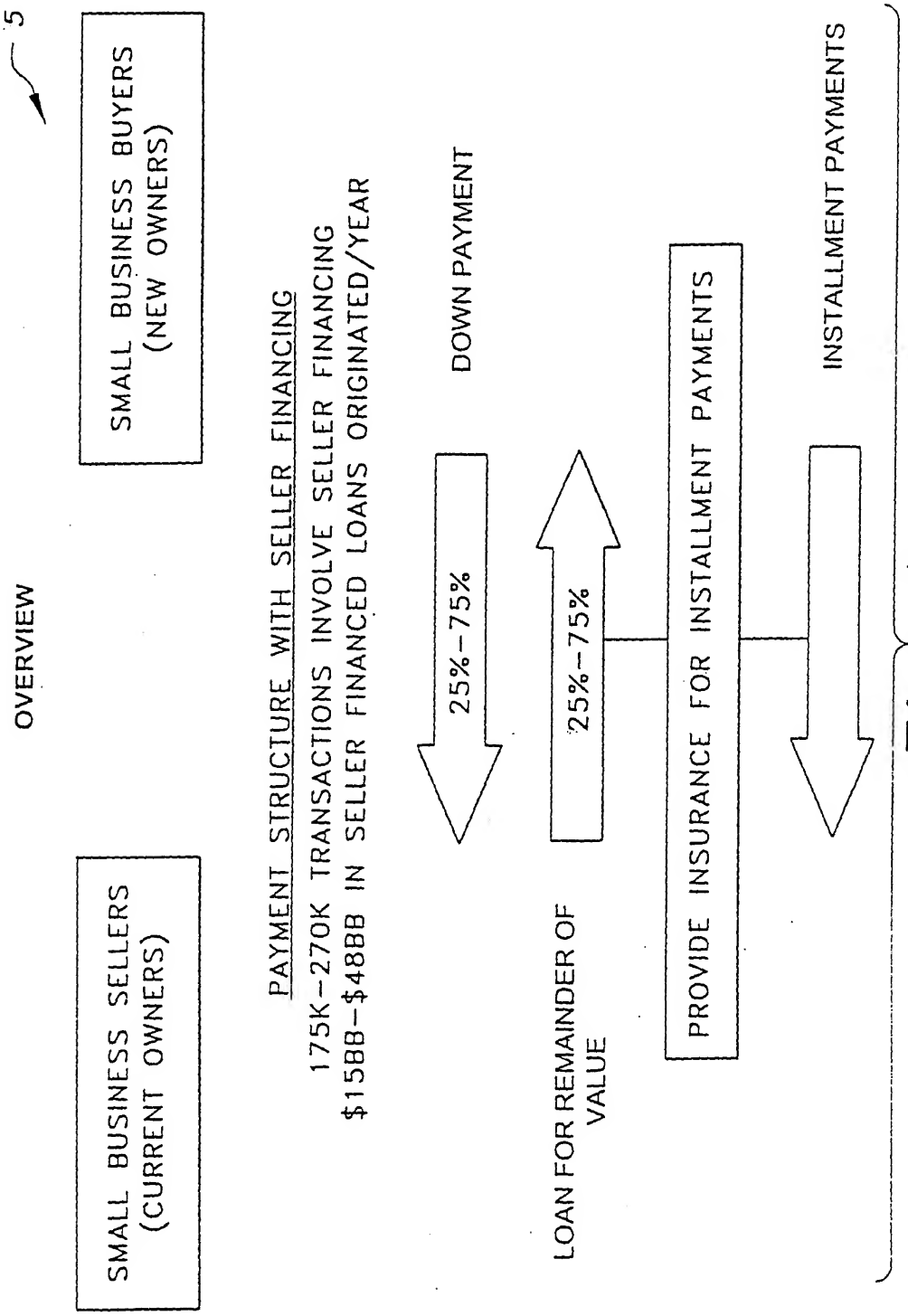
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OVERVIEW
SMALL BUSINESS BUYERS (NEW OWNERS)
SMALL BUSINESS SELLERS (CURRENT OWNERS)
PAYMENT STRUCTURE WITH SELLER FINANCING
175K–270K TRANSACTIONS INVOLVE SELLER FINANCING
$15BB–$48BB IN SELLER FINANCED LOANS ORIGINATED/YEAR
DOWN PAYMENT
25%–75%
LOAN FOR REMAINDER OF VALUE
25%–75%
PROVIDE INSURANCE FOR INSTALLMENT PAYMENTS
INSTALLMENT PAYMENTS

Fig. 1

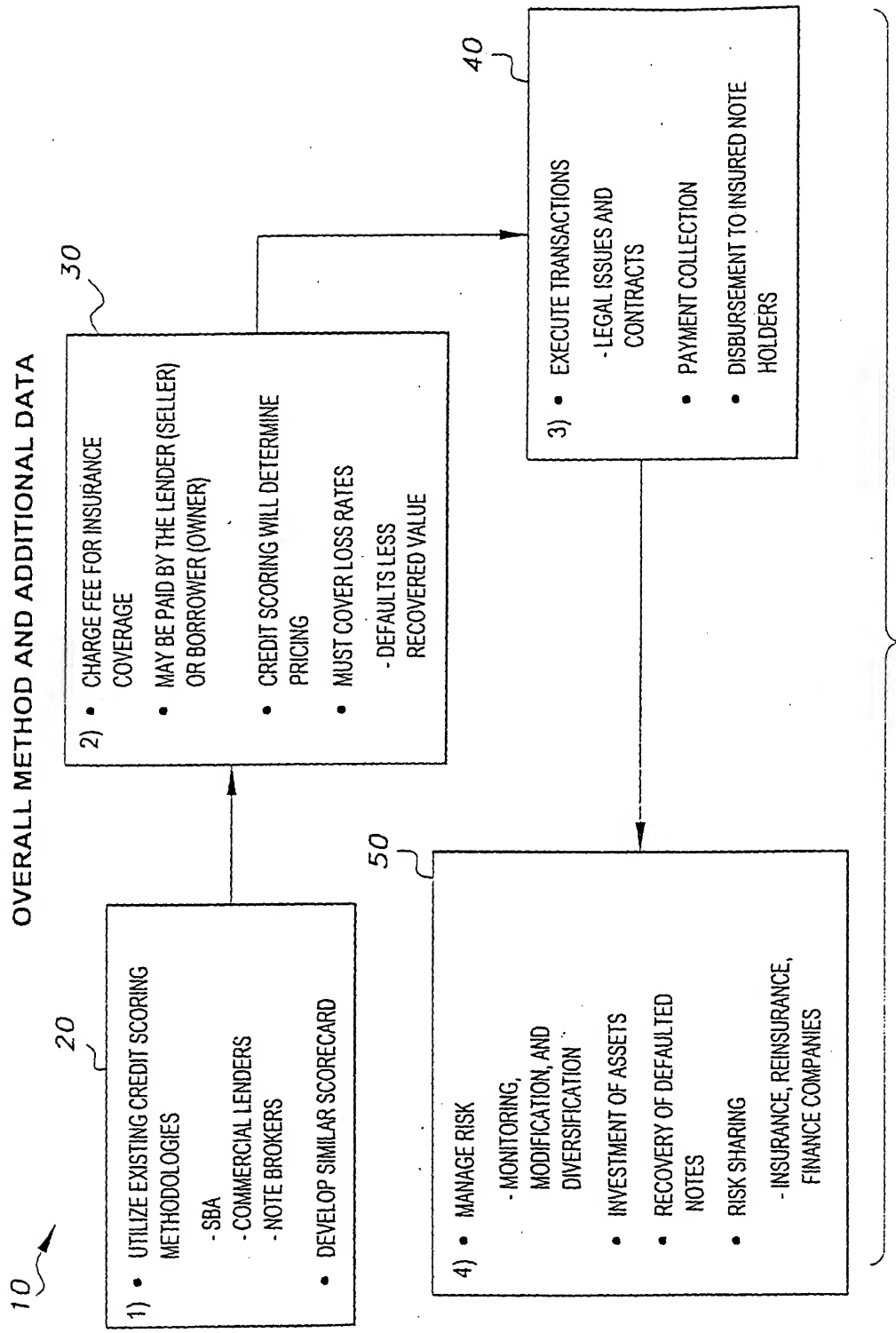

OVERALL METHOD AND ADDITIONAL DATA
10
20
1) • UTILIZE EXISTING CREDIT SCORING METHODOLOGIES
- SBA
- COMMERCIAL LENDERS
- NOTE BROKERS
• DEVELOP SIMILAR SCORECARD
30
2) • CHARGE FEE FOR INSURANCE COVERAGE
• MAY BE PAID BY THE LENDER (SELLER) OR BORROWER (OWNER)
• CREDIT SCORING WILL DETERMINE PRICING
• MUST COVER LOSS RATES
- DEFAULTS LESS RECOVERED VALUE
40
3) • EXECUTE TRANSACTIONS
- LEGAL ISSUES AND CONTRACTS
• PAYMENT COLLECTION
• DISBURSEMENT TO INSURED NOTE HOLDERS
50
4) • MANAGE RISK
- MONITORING, MODIFICATION, AND DIVERSIFICATION
• INVESTMENT OF ASSETS
• RECOVERY OF DEFAULTED NOTES
• RISK SHARING
- INSURANCE, REINSURANCE, FINANCE COMPANIES

Fig. 2

CREDIT SCORING

- LEVERAGE EXISTING CREDIT SCORING METHODOLOGIES FROM:
  - SBA
  - COMMERCIAL LENDERS
  - NOTE BROKERS
- DEVELOP CREDIT SCORE CARD BASED ON
  - LTV RATIO
  - PROOF OF BUSINESS PROFITABILITY
    - LENGTH OF TIME IN BUSINESS
    - LOCATION CONSISTENCY
  - TAX RETURNS AND P/L STATEMENTS
  - BUYER EXPERIENCE
  - BUYER CREDIT RATING (625+FICA CREDIT SCORE)
  - LOAN POSITION
  - PERSONAL BUYER GUARANTEE
  - TURN-AROUND POTENTIAL

Fig. 3

30

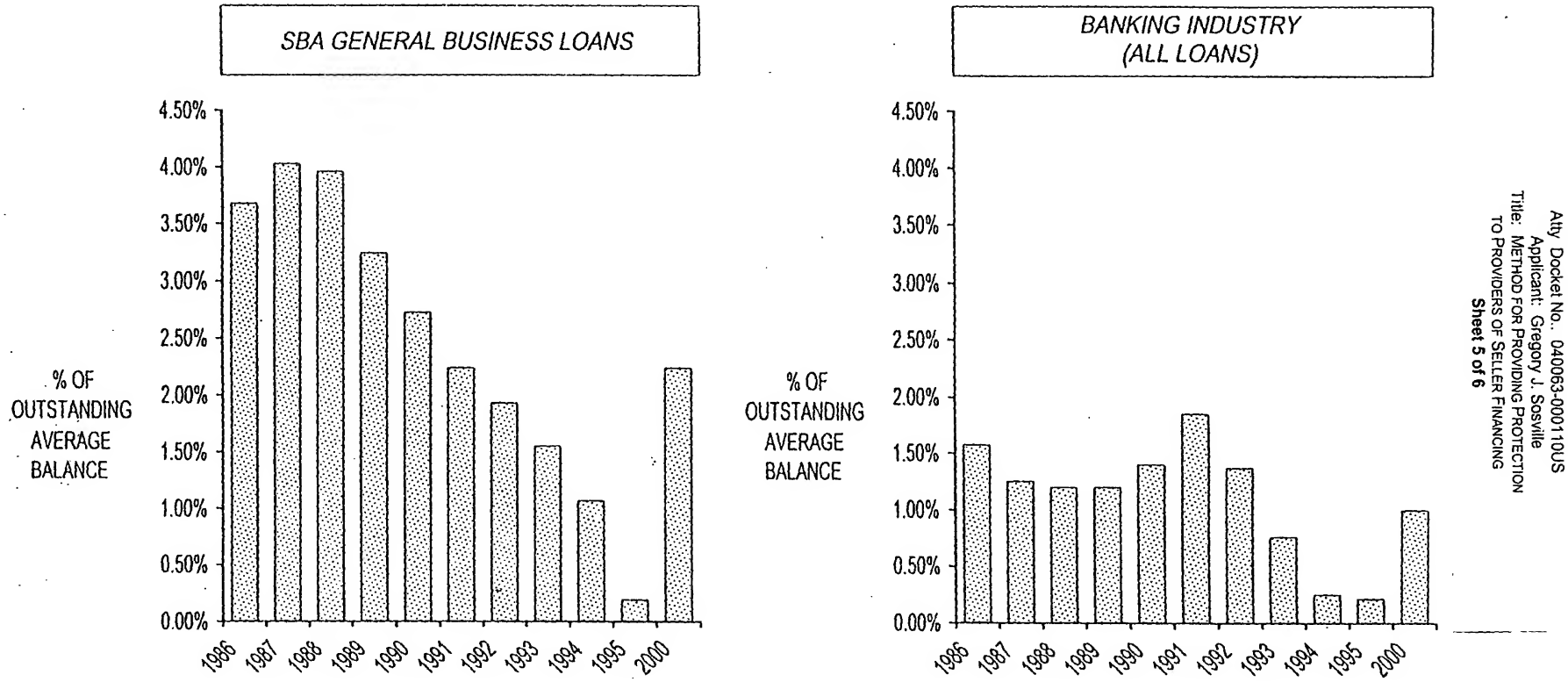
PRICING MODULE

FEE FOR INSURANCE AND SECURITY DEPOSIT NEEDS TO COVER EXPECTED LOAN DEFAULT LOSS AMOUNTS

- KEY CRITERIA IN DEFINING APPROPRIATE PRICING MODEL:
  - EXPECTED LOAN DEFAULT RATES
  - EXPECTED LOSS ON DEFAULT
    - PERCENT OF ACTUAL LOSS RELATIVE TO LOAN AMOUNT
    - TAKE INTO ACCOUNT SALVAGE AND TURN-AROUND VALUE

Fig. 4

LOSS RATES: BUSINESS LENDING LOSS RATES (DEFAULT LOANS LESS RECOVERED ASSETS)



EVEN WITH THE SBA'S AGGRESSIVE LENDING CRITERIA, LOSS RATES HAVE NOT SURPASSED 4.1%.

Fig. 5

Atty Docket No.: 040063-000110US
Applicant: Gregory J. Sosville
Title: METHOD FOR PROVIDING PROTECTION TO PROVIDERS OF SELLER FINANCING
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IN CASE OF DEFAULT

BUSINESS SELLER (PAYEE)	BUSINESS PURCHASER (PAYOR)	THIRD PARTY (SFIC)
• CONTINUES TO RECEIVE MONTHLY PAYMENTS	• DEFAULTS ON MONTHLY PAYMENTS	• BY CONTRACT GAINS CONTROL OF THE BUSINESS
• POSSIBLE PENALTY FOR PURCHASER DEFAULT - VARIES BY CONTRACT AND FEE STRUCTURE	• BY CONTRACT LOSES CONTROL OF BUSINESS • PROMISED NO RECOURSE - IN THE EVENT THAT MONEY RECOVERED EXCEEDS ALL OBLIGATIONS TO BUSINESS SELLER, THE PURCHASER WOULD RECEIVE THE REMAINDER	• SEVERAL RECOVERY OPTIONS EXIST: - STRAIGHT LIQUIDATION (SALE) OF THE BUSINESS - PURSUE SECONDARY GUARANTEES IF NECESSARY - LIENS - PERSONAL GUARANTEES - OPERATE AND TURN-AROUND - NEW MANAGEMENT - WORK OUT - EXISTING MANAGEMENT

Fig. 6